Such a situation is one demanding governmental action. Among the recommendations of the Pujo "Money Trust" Committee was one for a law limiting the proportion of the assets which a national bank might invest in this class of securities. Very probably some such legislation will be passed at this congressional session. But in view of the questionable legality of these investments and the pressing necessity for a change in such banking methods, the Comptroller of the Currency should be in position to take speedy action which would at least place some restriction upon this rapidly growing tendency of the national banks, especially in the eastern and central states, to tie up so large a proportion of their funds in investments which were evidently not contemplated by the national banking law and which materially limit the ability of the banks to care properly for their commercial customers.

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WASHINGTON NOTES

BUSINESS AND THE TARIFF

The final action of the President in signing the tariff bill on October 3 is too recent to admit of absolute predictions concerning the effect of the measure, but even since the law went into effect some very interesting trade and international developments have taken place. These have been almost entirely against the preconceived views of those who attempted to forecast the influence of the tariff upon business.

Perhaps the most striking feature of the situation has been seen in the circumstance that withdrawals of goods from bonded warehouses—or in other words actually effective importations—have been very much smaller than had been thought likely. There has been an increase in the total amount of import duties as compared with the corresponding period last year, which indicates that at the lower rates of duty imposed by the act, the volume of goods, measured in terms of value, has been somewhat larger. This, however, has been thus far only a relatively minor advance. Even prior to the passage of the act, the total quantity of goods in warehouse was only about $15,000,000 or $20,000,000 larger than normal, taking the country as a whole. But even this quantity of additional goods has not been withdrawn from warehouses as speedily as some domestic manufacturers supposed it would be. Several reasons can be given for this relative slowness on the part of the tariff bill in changing the economic outlook. One is that the reduction of duties is

not as great in practical operation as it seems on paper to be. For many years, while the various industries of the country were growing stronger and more efficient, tariffs were being raised or kept at their old level, so that almost throughout the schedules there was surplus protection, not "needed" in any sense of the term, even from the purely protective point of view. Although, therefore, the nominal cut in duties has been great, the actual cut has been very much smaller, so far as any practical effect is concerned. Another factor in the situation is that manufacturing conditions in some of the countries which compete most directly with us are now very prosperous. For example, it was said that the cotton industry, which has been stripped of a large measure of its protection, would probably meet tremendous competition from Great Britain. The facts now show that nothing of the kind is likely to occur in the near future. Within the past thirty days, very careful comparisons have been made between the prices for standard cottons prevailing in the New England manufacturing districts and those in Lancashire, with the result that none of the ordinary staple lines and but few of the fancy goods seem to afford a distinct opportunity to British exporters. Indeed, it is to be doubted whether in ordinary classes of goods there will be for the present any material increase in importations. Something like this same state of affairs exists in the woolen industry. In that business, the new rates do not take effect for some little time to come, but preparations have been made on all hands for readjustment to the new state of things. Manufacturers are finding that with free raw wool, and in some cases with reorganization of their methods, they can hold their own, and in a few instances do better than heretofore. On some classes of standard woolen goods, such as serges, prices that are now being quoted by American mills ready to work on new orders during the winter are more favorable to the buyers, all things considered, than English charges for similar qualities offered during the recent past. In silks and linens, the tariff problem seems to be largely one of readjustment to a new method of levying duties and a new condition of affairs, rather than a competitive problem. Somewhat the same is true in other lines of industry. The immediate cut in the sugar duties has not been sufficient to injure sugar producers for the present. Iron- and steel-makers, after looking the ground over, can foresee no loss of trade to foreigners except along the Atlantic and Pacific coasts, the business at interior points being fully protected by freight rates on goods coming from the coast. It is a literal fact, considered astonishing by most observers, that the new tariff, drastic as it is in many particulars, has not had more effect upon either

the revenue of the government or the conditions of industry. General information concerning the state of business shows that mills nearly everywhere are fully occupied and have orders far in advance.

A CONCEALED SHIP SUBSIDY

One phase of the new bill has however already caused a good deal of anxiety. This is the so-called "5 per cent rebate" to be granted to American ships. Under the tariff as finally enacted (subsection 7, paragraph J, Sec. 5, Act of October 3, 1913), it was provided that if goods were imported in American bottoms there should be a reduction of 5 per cent of the amount of the duties on such goods, but such reduction was to be made in a manner that would not interfere with any existing treaty with a foreign country. While on the surface there was no reason to apprehend serious difficulty under this provision, it has developed since the passage of the act that all countries with which we have "favored-nation" relations expect to insist upon having the same rebate allowed upon goods imported in their own vessels. This apparently subjects us to two rather difficult and disagreeable conditions: (1) that of allowing a general 5 per cent discount from the level of duties finally established, in favor of all countries with which we have favored-nation treaties, and (2) that of engaging in commercial warfare, or submitting to reprisals from those with which we have no such treaties, France being a conspicuous example of this class of country. As a matter of fact we cannot afford to lose the 5 per cent rebate upon any very considerable volume of imported goods, as to do so would mean a fairly large loss of revenue, from the estimated probable yield of the new rates of duty. Yet the making of a general reduction in this way would be equivalent to reducing the level of the tariff by almost the amount of the rebate, because so few countries are not on the favored-nation basis. At the same time, the effect of such a general grant of the reduction would be to make the rebate nearly worthless as a concession to American ships, since they would not be much better situated than the rank and file of their competitors. Very careful computations have been made concerning the effect of the rebate upon shipping, with the result that an annual saving of perhaps $3,000 is to be expected from the provision in the case of an ordinary vessel engaged in the foreign trade, while probably $12,000 or $13,000 of additional charges would be incurred, due to the necessity of complying with American navigation laws. No ships have, therefore, either changed or indicated an intention of changing their flag, and it is not believed that ships to be constructed will be influenced by

the possibility of getting the rebate, but will take the flag that their owners would have selected had it not been for the new provision. The clause, however, is of exceedingly great interest as affording a test, from a new angle, of the attitude of the United States in regard to the most-favored-nation clause in commercial treaties. After the Payne-Aldrich law was enacted, it was sought to get from the European nations concessions in tariff duties under a threat that if they were not granted we would apply the maximum rates of duty, which were 25 per cent higher than the ordinary rates. This effort was successful only to a very limited extent, because of the attitude of the principal foreign countries, who contended that the United States was not entitled to their best rates because it failed to give them the best treatment that we stood ready to accord the other nations, our reciprocity policy having always been founded upon that view. Germany made only minor concessions to us, and France and Canada yielded hardly anything. Under the proposed 5 per cent rebate, either the United States now undertakes to grant something to its own ships that it does not grant to others, or else, having granted it to all nations on a most-favored basis, it refuses to make any concessions to countries which have refused to make most-favored-nation treaties with the United States because of our peculiar interpretation in the past of the most-favored-nation clause. This is a reversal of the conditions under which the problem was dealt with after the passage of the Payne-Aldrich law, and, if the 5 per cent clause should be retained, is likely to force the administration into an attempt to rearrange our system of commercial treaties. The rebate provision thus has a significance very much beyond its apparent importance.

OBJECTIONS TO THE BANKING BILL

While no technical progress has been made with the currency and banking measure since it passed the House of Representatives in September, much work has been done toward furthering its progress and remodeling it in so far as needful. Elaborate hearings have been carried on before the Senate Committee on Banking and Currency, and full opportunity given for the expression of opinion by bankers, mercantile interests, expert students of the subject, and individuals generally. Particularly interesting has been the expression of opinion on the part of accredited representatives of organizations or groups of bankers and business men. The general criticisms directed against the bill have been so numerous and varied as not to permit of any brief statement, but

probably the most widely accepted of them have dealt with the following points:

1. The number and capital of the reserve banks proposed by the bill, it being urged that the number should be cut down and that the capital should be correspondingly lowered, thus making it a smaller percentage of the capital of the contributing banks.

2. The character of the public control to be exercised over the banks, it being contended that the proposed Federal Reserve Board should not be an exclusively official body, but should include some members representing bankers, and that these members should if possible be granted votes.

3. The nature of the redemption provisions. As drafted, the bill calls for redemption of notes in "lawful money," as did the Aldrich or Monetary Commission bill. The complaint has been made that this provision throws the soundness of the note currency into doubt, inasmuch as the ultimate redemption of the "lawful money" depends upon the redeemability or convertability of the greenbacks. Gold redemption is therefore urged in place of lawful money redemption.

4. The plan for collecting checks through the reserve banks at par without charge for exchange. This provision has been sharply attacked by country banks which are in the habit of making heavy charges for collection, some of them asserting that as much as 25 per cent of their profits are secured in this way. The only severe criticism of the check provision appears to be that it would lessen the earnings of individual banks and would constitute a considerable burden upon the reserve banks themselves.

5. The character of the paper to be rediscounted by reserve banks. In early drafts of the bill, the paper thus eligible was limited to notes and bills of exchange growing out of commercial, industrial, or agricultural transactions; but while the measure was in committee, it was altered so as to permit such paper to be rediscounted if its proceeds had been used or were to be used for the purposes specified—the carrying through of commercial, industrial, or agricultural dealings. This change, it has been urged, affords too large a latitude to the prospective borrowers.

6. The conditions under which banks are to enter the system. As now drafted, the bill requires banks to enter the system or else give up their national charters within a year. This is complained of on the ground that it is too severe a requirement, and it is quite generally urged, particularly by bankers, that entrance into the system should be made voluntary, on their part.

The severity of pressure which has been applied by the administration in behalf of the proposed bill seems to establish a general probability that the measure will be adopted in some form. How many of the amendments thus urged may be expected to be incorporated cannot be foretold, but it seems probable that some rather important changes will be made. Probably these will be in certain respects concessions to banking interests, while in others they will be designed to render the bill an even more positive measure of control of banking than it now is. There are some who believe that the outcome in the Senate may be to strike out the bulk of the House bill and to substitute a plan providing for a great bank completely under public control. Whether this would be more acceptable to the country or not is open to grave doubt. What has been made very evident is that the Wilson administration has determined to pass either this bill or one modeled on similar lines, or else to abandon the attempt at legislation at present. This determination seems to be quite generally recognized among both banking and commercial interests, and there has been a growth of the feeling that unless some actual measure of legislation is carried through in the near future, it will not be possible to get a genuine amendment of the banking and currency laws of the country for a great while to come.

NEW METHODS IN THE PHILIPPINES

An important change in existing methods of Philippine government, which foreshadows economic as well as political alterations in the status of the Philippine Islands, was announced on October 6 at Manila, when the new governor-general, Francis Burton Harrison, in an inaugural address made immediately upon his arrival, conveyed a message from President Wilson promising that the so-called "Philippine Commission" shall henceforward be composed of natives. The Philippine civil government act permitted the establishment of an assembly elected by the people, while it provided for a commission whose members were understood to be predominantly Americans, although not required by law to be so. President Wilson now undertakes to have this commission predominantly or wholly native, although with an American governor-general at the head. He thereby breaks the deadlock which has existed between the Assembly and the Commission, it having been impossible for some two years past to obtain any satisfactory agreement between the two bodies, either as to the way in which the Philippines should be represented in Congress or as regards the amount and character of the

appropriations to be voted. Prior to sending Governor-General Harrison to the Philippines, Mr. Wilson had already removed one or two members of the Commission, while subsequent to the announcement of the new policy, others were retired and natives named in their places. Thus is brought about a radical transformation of the government of the Philippines, without the necessity of any action by Congress. It is understood that this is only a first step in the administration's Philippine policy, and that subsequent steps depend in large measure upon the way in which the control of the upper chamber of the Philippine government is now used under the new régime. The expectation, of course, is that, in so far as permitted by the fundamental act, the Filipinos will alter their system of taxation, and that they will very largely change their methods and the scope of expenditures. They cannot change tariff relations with the United States, these being provided for by act of Congress—the new tariff itself having altered their tariff status quite materially, besides repealing the export tax on hemp and imposing the provisions of the new income tax upon the Islands. They can however very materially alter the status of things, both within and without the Philippines, by legislation upon matters under domestic control, while it is probable that the nature of the reports made to the War Department will in the future be quite different from those that have been issued heretofore, so that the public will be supplied with a totally different kind of information concerning the Islands.

THE ANTI-TRUST PROGRAM

Definite announcement has been made that the administration intends at the earliest moment—after disposing of its currency program —to embark upon anti-trust legislation, and this is now expected to follow the general lines of the bills adopted in New Jersey in February, 1913. Some of the chief provisions of the New Jersey bills were as follows:

1. Directors and corporation officers were made individually responsible for infractions of law.

2. New holding companies were forbidden.

3. Watered stock and stock issued for profit not yet earned was forbidden; and it was further provided that when stock is issued in payment for property it should be issued only to an amount equal to the sum paid in cash or a cash valuation of the property.

4. Agreements to fix prices were forbidden.

5. Selling of goods at different prices in different parts of the country in order to injure competitors was made illegal.

6. Power to forfeit the charter of an offending corporation was bestowed upon the public authorities.

7. The purchase of stock in one company by another was forbidden unless the former was engaged in the same line of business as the latter.

8. In general, provision was made for severe penalties, for the extermination of monopolies, etc.

Preparations have already been made for the bringing forward of bills designed to carry into effect the policy of the administration in regard to the anti-trust question, and thus another large field of legislative work is opened for immediate cultivation.